

# the rural

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# electrification program



The Rural Electrification Administration is a lending agency of the United States Department of Agriculture. It makes loans for the purpose of financing electric systems and telephone service in rural areas. Congress annually determines the amount of funds REA may lend.

The agency was established May 11, 1935 by Executive Order of the President. The Rural Electrification Act of 1936 gave REA permanent status and authorized a 10-year electrification loan program, which was extended indefinitely in 1944. REA has been an agency of the Department of Agriculture since 1939. Its Administrator is appointed by the President, subject to Senate confirmation.

## WHAT REA DOES

In the field of rural electrification, REA is empowered to make loans to qualified borrowers, with preference to non-profit and cooperative associations and to public bodies. Loans cover the full cost of constructing power lines and other facilities to serve persons in rural areas who are without central station electric service. They bear 2 percent interest and are repaid over a maximum period of 35 years.

Lines constructed by REA borrowers are designed to serve entire rural areas, including less densely settled sections as well as the more populous areas. The "area coverage" policy has become increasingly important as the rural electrification job has progressed. The test is not whether an individual line or section will be self-supporting, but whether the entire system is feasible as a whole.

REA itself operates no electric facilities. Its main functions are to lend money and assure repayment through appropriate loan-supporting activities. Loans are repaid from operating revenues of the locally owned, locally managed systems it finances. Part of each consumer's monthly payments for electricity goes to pay off the government loans.

## GROWTH OF FARM ELECTRIFICATION

Farm electrification had advanced very slowly in the United States during the 53-year period from 1882, when the first central generating system went into service, to 1935, when REA was created. Only 10.9 percent of all farms in the United States had electric service in 1935.

REA

Since its establishment, REA has greatly stimulated extension of electric service into rural areas. It estimates that of the total farms recorded in the 1954 Census 4,468,043 or 93.4 percent were electrified by June 30, 1955. A little more than half of these farms get electricity from REA-financed systems. About 300,000 of the farms in the country still are without electricity along with many non-farm dwellings, crossroads businesses, schools, churches and other rural establishments.

#### ELECTRIC LOAN STATISTICS

REA has made more than 90 percent of its electrification loans to cooperatives organized under state laws by rural people seeking electric service. These groups are local, independent, private business enterprises.

As of January 1, 1956, REA had approved over \$3.1 billion in loans to 1,077 borrowers. They included 979 cooperatives, 48 public power districts, 26 other public bodies, and 24 electric companies. On January 1, 1956, the borrowers were operating 1,350,000 miles of line serving more than 4.2 million consumers in about 2,600 counties of 46 states, Alaska, the Virgin Islands and Puerto Rico.

By January 1, 1956, REA had advanced about \$2.7 billion in loans to its borrowers. Under REA loan contracts, advances are made as the borrowers need funds with which to pay for construction under way or completed.

#### HOW THE MONEY IS USED

About 80 percent of the loans thus far approved by REA have been for electric distribution facilities. Forty-three percent of the power distributed by REA-financed systems is purchased from electric companies. REA makes generation and transmission loans when borrowers are unable to purchase an adequate supply of power or when power costs would be reduced. Approximately 19 percent of the REA loans have been for construction of generation and transmission facilities. About 1 percent of the loans has been made for financing farmstead installation of wiring, plumbing, electrical equipment and irrigation facilities.

#### HOW FARMERS USE ELECTRICITY

Use of electricity from REA-financed lines increased from a monthly average of 134 kwh per farm in 1949 to about 245 kwh in 1955. Farmers are coming to depend more and more upon electricity as a production tool. About 400 farm uses for electricity are known; at least 250 of them increase production or make farming more profitable.

Farmers already use more electric energy for more farm tasks than was expected when the original lines were built. As a result, power distributors are faced with the necessity of "heavying up" the lines and substations to keep abreast of demand. A program of system improvements has been a major activity of most REA electrification borrowers in recent years.

An important result of the expanding rural electrification program is the increased business it brings into rural communities. It stimulates private business, both locally and nationally. Surveys indicate that for every dollar invested in rural power facilities, the farmer invests 3 to 4 dollars in wiring, plumbing and electrical appliances. Also, when power is available, the establishment of industry in rural areas is encouraged.

#### RECORD OF REPAYMENTS

As of January 1, 1956, electric borrowers had paid to the government approximately \$227 million in interest and had repaid \$453 million in principal on their REA loans. This includes a current balance of \$91.2 million payments made by borrowers ahead of schedule which may be applied against future interest or principal installments. Only \$417,000 was delinquent.